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SUBJECT: UNDER SECRETARY HORMATS MEETINGS WITH RUSSIAN  
GOVERNMENT OFFICIALS ON MULTILATERAL ISSUES

Classified By: AMBASSADOR JOHN BEYRLER, REASON 1.4 (B) AND (D)

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SUMMARY  
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¶1. (SBU) Under Secretary of State for Economic, Energy and Agricultural Affairs Robert Hormats visited Moscow from 1-3 December, conducting meetings with a wide variety of audiences, including the Russian Presidential Administration, Russian Foreign Ministry and Economic Development Ministry officials, Gazprom executives, and representatives of the American and Russian business communities. He also spoke at the Economic Faculty of Moscow State University, taking questions from undergraduate students in economics. This cable reports on Under Secretary Hormats' meetings with Russian government officials. Energy issues and bilateral topics are reported separately. End summary.

¶2. (SBU) During his recent visit to Moscow, Under Secretary Hormats participated in a two-hour session at the Russian Foreign Ministry, with a team lead by Deputy Foreign Minister Denisov. The session was followed by a working lunch, where Yelana Danilova of the Ministry for Economic Development and Andre Bougrov, currently with the Russian company Interros, joined the group. Hormats also met with Arkadiy Dvorkovich, Russian Presidential Advisor on Economic Issues. During these wide-ranging meetings, Hormats addressed U.S.-Russian cooperation on macroeconomic issues, Russia's WTO accession process, China, Cambodia and sovereign wealth funds. Both sides agreed on the importance of maintaining a dialogue between foreign ministries on economic topics, in order to support the key role economic diplomacy can play in the bilateral relationship.

Macroeconomic Overview--Doing Better But Still  
Have A Long Way To Go  
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¶3. (C) Under Secretary Hormats opened the substantive discussion with a review of the current economic situation in the U.S. In his presentation, he emphasized that, although the financial crisis affected the U.S. and Russia in different ways, both countries felt the blow. Hormats stressed that, unlike in previous economic crises, this time the reaction of the world was to draw together, using such groupings as the G20 and the IMF. The Under Secretary stressed the important, positive role of U.S.-Russia bilateral cooperation on financial issues, led by Treasury Secretary Geitner and Russian Finance Minister Kudrin. He noted that Russia has been a good partner at the G20, IMF and World Bank, and emphasized that we would like this type of U.S.-Russia cooperation to continue into the post-crisis period.

14. (C) Denisov began by noting that Russian Foreign Minister Kudrin is a controversial person. Some find him "irritating" and accuse him of treason, while others believe he is the best finance minister Russia has had. According to Denisov, Kudrin has a power to resist against the influence of other players in policymaking, and as managed to survive yet another financial crisis. Denisov noted that the statistics on the Russian economy are still discouraging--GDP will decline by more than 8% in 2009. Industrial production has dropped by nearly 15%. The Russian government prioritized social programs in its spending package, to protect living standards. The increased social spending, combined with a lower inflation rate, mean that overall living standards have not declined as much as they could have. Denisov attributes this to Kudrin's prior actions on reserves, which provided the funding for these initiatives.

15. (C) Regarding the global economy, Denisov noted that we are beginning to see signs of recovery. We still have strong government intervention, with governments providing direct support to the real economy. In his view, there is reduced uncertainty and systemic risk in the global financial sector, but growth in Russia will remain slow (IMF predicts approximately 3% GDP growth in 2010). The future is optimistic, but the Russian government remains cautious, as the real sector is still weak. Unemployment remains a concern. While the emerging economies, including China, will begin to grow, Denisov still views the U.S. economy as the "anchor" for the global economy, providing the safety net for the rest of the world.

16. (C) In Denisov's opinion, Russia's overall participation  
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in the global economy is small, but Russia plays a key role in certain areas, such as the European energy market. Denisov supports a consensus approach and favors groups such as the G20 for finding agreed outcomes with practical results. He sees future work on IFI reforms, increased regulatory effectiveness, increased transparency and a decrease in tax havens. Denisov agreed with Under Secretary Hormats' view of the importance of U.S.-Russia cooperation in international fora, and noted that Russia is prepared to go along with restructuring of the World Bank and IMF voting shares, even though Russia will lose. He points to this as an example that Russia is ready to work in a constructive positive way on issues of mutual interest.

17. (C) Presidential Advisor Dvorkovich, in a separate meeting, added the Russians believe that the G-20 should be the primary forum for deliberations on financial accountability and economic development. Hormats recognized Russia's close and productive cooperation with the U.S. in both the G-8 and G-20 context. He reiterated the point made elsewhere that the U.S. also would like to see Russia be a productive member of the WTO and OECD if Russia can meet the necessary preconditions.

Future Dialogue  
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18. (C) Both Under Secretary Hormats and Denisov agreed on the need to fix a framework for future exchanges, emphasizing that economic diplomacy is more important than ever. The dialogue should be broad-based, and provide a forum to coordinate and facilitate more specialized discussions occurring in the various working groups of the Bilateral Presidential Commission. Denisov also noted that there are several areas where Russia has a pragmatic interest in having U.S. assistance, including in setting up a judicial enforcement system for economic oversight. Noting that cooperation between U.S. and Russian financial agencies is helpful for both, he is supportive of a continued banking dialogue which will implement practical outcomes.

China

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¶9. (C) The lunch discussion began with a brief exchange on the increasing role of China in the global economy. Andre Bougrov stated that China is using some of its dollar reserves to buy influence around the world, including with some of Russia's neighbors. At this point, however, Bougrov says that he doesn't know what the Chinese intend to do with this influence. Hormats raised the concern that Chinese lending without conditionality to some of the same countries who are seeking Paris Club debt relief is undermining the efforts of Paris Club members, such as Russia and the U.S. Bougrov noted the importance of being proactive--perhaps even of forming a "Beijing Club" to bring the Chinese in. If not, in his view, the World Bank will fill the vacuum if the debt is not rescheduled or forgiven.

WTO  
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¶10. (C) Denisov began the discussion with an overview of the history of the Customs Union, noting that it was the first post-Soviet supranational agreement on trade. He acknowledged that the announcement of the Customs Union was a surprise to Russia's partners in the WTO negotiations, and that Russia is in a difficult position as it tries to meet the needs of the Customs Union while moving forward with WTO accession as well. He argued that the Customs Union is vital to Russia's economic survival as it creates a broad market area.

¶11. (C) Presidential Advisor Arkadiy Dvorkovich expressed similar views on the WTO issue. Dvorkovich admitted that the GOR Russia needed to explain to its trade partners how the Customs Union will work, as the common tariff regime will take effect on January 1. He said that Russia intended to complete WTO negotiations on the basis of its own tariffs, not those of the Customs Union. Belarus and Kazakhstan would eventually adjust their tariffs to Russia's WTO tariffs. Outstanding bilateral issues (SPS, meat and poultry quotas, etc.) would not be difficult to resolve, in Dvorkovich's view. Hormats emphasized the need for the GOR to have one person in charge of the WTO negotiating process, so as to pull all the interested agencies and constituencies together. Dvorkovich said President Medvedev personally instructed Deputy Prime Minister Shuvalov and MED Nabiullina to

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accelerate the WTO negotiating process in the next few months.

¶12. (C) Yelana Danilova from the Ministry of Economic Development, however, presented the position that Russia will insist on simultaneous entry into the WTO by all three Customs Union partners on identical terms. She also claimed that they will keep to bilateral and other previously negotiated protocols, with only the "minimal changes" necessitated by the formation of the Customs Union.

¶13. (C) Throughout these conversations, Hormats conveyed U.S. administration's support for Russian accession to the WTO. While there were no major political barriers on the U.S. side, he said, Russia had to resolve a number of technical issues, but these were doable, if Russia is willing to adhere to its earlier agreements. The implementation of the Customs Union posed new complications, however.

¶14. (C) On other trade issues, Dvorkovich said that Medvedev had urged lowering of tariff and trade barriers in a recent meeting with government officials. The specific sectors involved are: automobiles, agricultural machinery, agricultural products, and steel products (pipes). Dvorkovich explained it was unlikely that the GOR would begin by lowering tariffs on agricultural products, but the other three sectors were fair game. Hormats noted that it would be helpful to reduce trade barriers on agricultural machinery

and that John Deere could produce many Russian jobs. Dvorkovich agreed that raising tariffs on agricultural machinery as well as used/imported cars was a mistake and inefficient. He pointed out, however, that Russian agricultural producers, including chicken farmers, were becoming more competitive globally and may one day export to U.S. markets, necessitating a "symmetrical approach" to the two countries' agricultural trade policies.

#### Cambodian Debt

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¶15. (C) Denisov informed the Under Secretary that Russia held consultations with Cambodia in October and November, but were disappointed with the outcomes. The positions of the two countries are very far apart. Russia is looking for payment terms of 3-4% interest over 30 years, while the Cambodians proposed 1% interest for 40 years. Denisov said that they will continue trying to reach agreement.

#### Sovereign Wealth Funds

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¶16. (C) At the end of the conversation, Denisov noted that the Russians would also like to discuss sovereign wealth funds and other "emerging issues" at future meetings, although he did not provide any more details.

#### Comment

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¶17. (C) The meetings were both extremely cordially. In the meeting with MFA, Denisov and Malyan both spoke with a fair degree of frankness, including on issues such as varying views of Finance Minister Kudrin within the Russian hierarchy. Denisov was clearly well-prepared and spoke in detail on complex issues, only occasionally referring to his notes. MED's Danilova, who joined for the lunch discussion, was much more circumspect with her comments, hewing closely to the Putin party line on issues such as the Customs Union and WTO membership. Dvorkovich, for his part, also displayed an openness to working with the Under Secretary on issues of mutual interest.

¶18. (U) This cable has been cleared with U/S Hormats' delegation.  
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